Consolidated Financial Report

The National World War II Museum, Inc. and Subsidiaries

June 30, 2011

MINI THE NATIONAL WWII MUSEUM

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and where appropriate, at the office of the parish clerk of court.

Release Date FEB 2 2 2012



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New Orleans, Louisiana

June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,

The National World War II Museum, Inc,

New Orleans, Louisiana

We have audited the accompanying consolidated statement of financial position of The National World War II Museum, Inc. and Subsidiaries (a nonprofit organization) (the "Museum") as of June 30, 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2010 consolidated financial statements and in our report dated November 4, 2010; we expressed an unqualified opinion on those consolidated financial statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in <u>Governmental Auditing Standards</u> issued by the Comptroller General of the United States Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National World War II Museum, Inc. and Subsidiaries as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated November 4, 2011 on our consideration of The National World War II Museum, Inc and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of The National World War II Museum, Inc. and Subsidiaries taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole

Certified Public Accountants

Bourgeois Bennett, LL.C.

New Orleans, Louisiana, November 4, 2011.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The National World War II Museum, Inc. and Subsidiaries New Orleans, Louisiana

June 30, 2011 (with comparative totals for 2010)

ASSETS

	<u> </u>	2011	2010
Cash and cash equivalents		\$ 13,020,470	\$ 14,438,840
Investments		9,022,995	3,709,091
Unconditional promises to give			
Capital Campaign, net of allowances		15,496,118	7,385,648
Endowment, net of allowances		35,680	239,407
Other, net of allowances		966,069	1,439,343
Grants receivable Notes receivable		2,000,000 32,336,919	1,446,423
Gift shop inventory		648,230	30,730,066 656,395
Other assets		4,302,495	647,071
Property and equipment,		4,302,433	047,071
net of accumulated depreciation		101,559,148	99,708,766
Collections		6,461,379	5,655,292
		0,101,575	
Totals		<u>\$ 185,849,503</u>	\$ 166,056,342
	LIABILITIES		
Accounts payable trade		\$ 760,255	\$ 1,072,642
Construction projects payable		1,719,476	2,955,623
Accrued expenses		1,315,206	1,173,769
Deferred revenue		651,504	454,945
Notes payable		51,921,480	50,641,544
Line of credit		319,091	
Total liabilities		56,687,012	56,298,523
	NET ASSETS		
Unrestricted			
Board designated		4,604,095	2,562,747
Undesignated		98,083,438	87,453,739
Total unrestricted net assets		102,687,533	90,016,486
Temporarily restricted		21,729,035	15,003,908
Permanently restricted		4,745,923	4,737,425
		129,162,491	109,757,819
Totals		\$ 185,849,503	\$ 166,056,342

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

The National World War II Museum, Inc. and Subsidiaries

New Orleans, Louisiana

For the year ended June 30, 2011 (with comparative totals for 2010)

				20	11					
		nrestricted	•	Temporarily Restricted	P	ermanently Restricted		Totals		2010 Totals
Support and Revenues		in confected		Restricted	<u> </u>	<u>Restricted</u>		Totals	_	Totals
Grants	\$	1,046,092	\$	6,340,992			\$	7,387,084	\$	7,779,717
Contributions	•	2,010,032	•	0,5 10,552			-	1,507,001	Ψ.	.,,,,,,,,
Capital Campaign				15,104,641				15,104,641		8,925,156
Endowment				15,104,041	\$	8,498		8,498		265,818
Other		1,338,847			Ψ	0,120		1,338,847		1,295,830
Tax credit incentives		3,806,664						3,806,664		1,943,625
Memberships		5,441,047						5,441,047		5,529,722
Admissions		5,618,145						5,618,145		4,237,400
Facilities and property rental		592,348						592,348		488,168
Sponsored events and conferences		1,437,437		393,142				1,830,579		1,188,821
Food and Beverage		4,196,577		5,5,1,=				4,196,577		1,987,480
Gift shop		1,430,755						1,430,755		1,024,511
Investment income (loss)		2,055,065		445,414				2,500,479		1,992,107
Sponsorships		39,680		- 1-,				39,680		89,250
Miscellaneous		46,182						46,182		5,018
Net assets released from restrictions		15,559,062		(15,559,062)						-
Total support and revenues		42,607,901	_	6,725,127		8,498	_	49,341,526		36,752,623
Expenses										
Capital Campaign fundraising and other		1,346,735						1,346,735		1,438,440
Depreciation		5,506,394						5,506,394		3,963,588
Fundraising		1,351,491						1,351,491		2,351,066
Food and beverage		1,348,574						1,348,574		770,763
General and administrative		1,970,033						1,970,033		2,194,480
Gift shop merchandise sold		711,518						711,518		583,933
Interest - amortized		1,656,372						1,656,372		1,206,228
Interest - other		38,800						38,800		76,450
Loss on abandonment of property		269,460						269,460		84,147
Museum expansion		851,467						851,467		839,831
Programs and operations - personnel cost	s	6,963,059						6,963,059		5,037,896
Programs and operations - other costs		7,922,951					_	7,922,951		6,279,417
Total expenses		29,936,854				-		29,936,854		24,826,239
Changes in Net Assets		12,671,047		6,725,127		8,498		19,404,672		11,926,384
Net Assets										
Beginning of year		90,016,486		15,003,908	4	<u>,737,425</u>		109,757,819		97,831,435
End of year	<u>\$ 1</u>	02,687,533	\$	21,729,035	<u>\$ 4</u>	,745,923	\$	129,162,491	\$	109,757,819

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

The National World War II Museum, Inc. and Subsidiaries New Orleans, Louisiana

For the year ended June 30, 2011 (with comparative totals for 2010)

Cash Flows From Operating Activities Change in net assets \$ 19,404,672 \$ 11,926,384 Adjustments to reconcile change in net assets to net cash used in operating activities: \$ 5,506,394 3,963,588 Depreciation 5,506,394 3,963,588 Amortization of note payable discount 1,317,436 988,077 Loss on abandonment of buildings 269,460 84,147 Interest on notes receivable (1,357,125) (1,328,092) Donations of property and equipment and collections (41,048) (96,450) Unrealized gain on investments (916,710) (620,950) (Increase) decrease in operating assets (916,710) (620,950) Other unconditional promises to give, net 473,274 (768,957) Gift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment (6,314,519) (586,128)		 2011	<u></u>	2010
Adjustments to reconcile change in net assets to net cash used in operating activities: Depreciation 5,506,394 3,963,588 Amortization of note payable discount 1,317,436 988,077 Loss on abandonment of buildings 269,460 84,147 Interest on notes receivable (1,357,125) (1,328,092) Donations of property and equipment and collections (41,048) (96,450) Unrealized gain on investments (916,710) (620,950) (Increase) decrease in operating assets Other unconditional promises to give, net 473,274 (768,957) Grift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (1,5557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give - endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859)	Cash Flows From Operating Activities			
Depreciation	Change in net assets	\$ 19,404,672	\$	11,926,384
Depreciation	Adjustments to reconcile change in net assets to			
Amortization of note payable discount Loss on abandonment of buildings Loss on abandonment of loss of property and equipment and collections Loss on abandonment of loss of property and equipment loss of	net cash used in operating activities:			
Loss on abandonment of buildings	Depreciation	5,506,394		3,963,588
Interest on notes receivable	Amortization of note payable discount	1,317,436		988,077
Donations of property and equipment and collections Unrealized gain on investments (916,710) (620,950) (Increase) decrease in operating assets Other unconditional promises to give, net 473,274 (768,957) Gift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	Loss on abandonment of buildings	269,460		84,147
Unrealized gain on investments (916,710) (620,950) (Increase) decrease in operating assets Other unconditional promises to give, net 473,274 (768,957) Gift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859)	Interest on notes receivable	(1,357,125)		(1,328,092)
Unrealized gain on investments (Increase) decrease in operating assets Other unconditional promises to give, net Offit shop inventory Gift shop inventory Other assets (3,655,424) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses Accounts payable and accrued expenses Offit evenue Off	Donations of property and equipment and collections	(41,048)		(96,450)
Other unconditional promises to give, net 473,274 (768,957) Gift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give:		(916,710)		(620,950)
Other unconditional promises to give, net 473,274 (768,957) Gift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give:	(Increase) decrease in operating assets	,		
Gift shop inventory 8,165 (254,472) Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment (6,314,519) (586,128) Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give:		473,274		(768,957)
Other assets (3,655,424) (389,874) Increase (decrease) in operating liabilities: (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment (6,314,519) (586,128) Federal grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: (2apital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give (247,037) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,359) (247,037) Net cash used in (4,139) (19,859)		8,165		(254,472)
Accounts payable and accrued expenses (1,407,097) 968,097 Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in		(3,655,424)		(389,874)
Deferred revenue 196,559 440,845 Revenues restricted for the acquisition of property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes to give - endowment (4,139) (19,859) Net cash used in	Increase (decrease) in operating liabilities:	,		
Deferred revenue Revenues restricted for the acquisition of property and equipment Federal grant Capital Campaign contributions, net of expenses (15,557,168) Increase (decrease) in discount on unconditional promises to give: Capital Campaign Capital Campaign Capital Campaign At55,438 At564 Ancrease in allowance for uncollectible promises to give Capital Campaign At55,438 At67,646 Ancrease in allowance for uncollectible promises to give Capital Campaign At55,438 At67,646 Contributions restricted for endowment purposes to give - endowment At67,646	Accounts payable and accrued expenses	(1,407,097)		968,097
property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes Contributions restricted for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	~ ·	196,559		440,845
property and equipment Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes Contributions restricted for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	Revenues restricted for the acquisition of	·		·
Federal grant (6,314,519) (586,128) State grant (16,473) (7,082,581) Capital Campaign contributions, net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes Contributions restricted for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	-			
State grant Capital Campaign contributions, net of expenses (decrease) in discount on unconditional promises to give: Capital Campaign Increase in allowance for uncollectible promises to give Capital Campaign Solutions restricted for endowment purposes to give - endowment Net cash used in (16,473) (7,082,581) (15,557,168) (8,561,541) (9,646) (9,6	Federal grant	(6,314,519)		(586,128)
net of expenses (15,557,168) (8,561,541) Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859)	State grant	(16,473)		(7,082,581)
Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	Capital Campaign contributions,			,
Increase (decrease) in discount on unconditional promises to give: Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	net of expenses	(15,557,168)		(8,561,541)
Capital Campaign 455,438 167,646 Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	Increase (decrease) in discount on	,		•
Increase in allowance for uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	unconditional promises to give:			
uncollectible promises to give Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	Capital Campaign	455,438		167,646
Capital Campaign 594,514 481,762 Contributions restricted for endowment purposes (4,359) (247,037) Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in	Increase in allowance for			
Contributions restricted for endowment purposes Decrease in allowance for uncollectible promises to give - endowment Net cash used in (4,359) (247,037) (19,859)	uncollectible promises to give			
Contributions restricted for endowment purposes Decrease in allowance for uncollectible promises to give - endowment Net cash used in (4,359) (247,037) (19,859)	Capital Campaign	594,514		481,762
Decrease in allowance for uncollectible promises to give - endowment (4,139) (19,859) Net cash used in		(4,359)		(247,037)
Net cash used in		, ,		
	to give - endowment	 (4,139)		(19,859)
operating activities $(1,048,150)$ $(935,395)$	Net cash used in			
	operating activities	 (1,048,150)		(935,395)

	2011	2010
Cash Flows From Investing Activities		
Purchase of property and equipment	(7,501,891)	(19,165,826)
Purchase of collections	(364,384)	(578,888)
Advances on notes receivable	(249,728)	(4,682,494)
Investment purchases	(7,597,002)	(4,002,474)
Proceeds from sale of investments	3,199,808	
Net cash used in		
investing activities	(12,513,197)	(24,427,208)
Cash Flows From Financing Activities		
Collections of federal grant funds restricted		
for the acquisition of property and equipment	4,820,647	230,240
Collections of state grant funds restricted		•
for the acquisition of property and equipment	956,768	7,728,616
Collections of Endowment gifts	212,225	1,240,017
Collections of Capital Campaign contributions restricted		
for the acquisition of property and equipment, net of		
\$597,425 and \$638,788 of campaign expenses in		
2011 and 2010, respectively	6,396,746	8,855,161
Repayments of notes payable	(562,500)	(150,000)
Borrowings (Repayments) on line of credit, net	319,091	(1,500,000)
Net cash provided by		
financing activities	12,142,977	16,404,034
Net Decrease In Cash and Cash Equivalents	(1,418,370)	(8,958,569)
Cash and Cash Equivalents		
Beginning of year	14,438,840	23,397,409
End of year	\$ 13,020,470	\$ 14,438,840

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The National World War II Museum, Inc. and Subsidiaries
New Orleans, Louisiana

June 30, 2011

Note 1 - NATURE OF ACTIVITIES

The National World War II Museum, Inc and Subsidiaries (the "Museum") was established on December 2, 1991, to design, construct, and maintain a public museum located in New Orleans, Louisiana that tells the story of the American Experience in the war that changed the world - why it was fought, how it was won, and what it means today - so that all generations will understand the price of freedom and be inspired by what they learn

The Museum completed its initial phase of construction and opened in June, 2000. An expansion of the Museum devoted to the war in the Pacific Theatre opened in December, 2001. During 2003, the Museum was officially designated by Congress as America's National World War II Museum and was reincorporated under its new name with the State of Louisiana In 2006, the Museum completed construction on the first major component of a new expansion project. This addition, named Discovery Hall, is a 12,000 sq. ft, multi-functional, education facility offering the Museum's first dedicated space to students and teachers providing an exciting, dynamic place to learn The Museum also completed renovations in 2007 to the Eisenhower Center, a historical structure adjacent to the main building which houses research services and a recording studio for oral history and other video production.

During 2009, the Museum hosted the grand opening of the Solomon Victory Theater and Stage Door Canteen complex. This major campus addition is comprised of a multi-sensory theater presenting a signature film experience titled *Beyond All Boundaries*, and a 1940's themed live performance venue with food and beverage service provided by the Museum's American Sector Restaurant. This phase of the Museum's expansion also provides space for support services, administration, retail outlets, and central plant services.

In 2010, the Museum broke ground for The United States Freedom Pavilion - Boeing Center This 90+ feet high addition will be the tallest of the Museum's new pavilions and will house many macro artifacts including the iconic B-17 Flying Fortress, a simulation submarine experience, and galleries highlighting the branches of service and Medal of Honor recipients It is scheduled to open in November 2012.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting Significant accounting policies are summarized below

a. Organization and Income Taxes

The National World War II Museum, Inc is a non-profit corporation organized under the laws of the State of Louisiana for charitable purposes, principally the operation and maintenance of a museum dedicated to the history of World War II. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R S. 47:121(5)

Effective March 21, 2006, Chalk #17, Inc was formed as a non-profit corporation to be operated exclusively for the benefit of the Museum The Museum is the sole member and elects the members of the board of directors of Chalk #17, Inc. The purpose of this corporation was to acquire and preserve a 1942 C-47 aircraft, gather and preserve the history of the C-47 aircraft, specifically with regard to its role in World War II, and to promote public awareness, appreciation, and education of the historic relevance of the C-47 aircraft. During the year ended June 30, 2007, ownership for the C-47 aircraft was transferred from Chalk #17, Inc. to the Museum

On October 22, 2007, World War II Theatre, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct a theater, and canteen and restaurant adjacent to the existing museum. The corporation is organized on a stock basis with authority to issue 100 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

On April 2, 2010, WW II Pavilions, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct additional exhibit facilities as part of the parent organization's capital expansion. The corporation is organized on a stock basis with authority to issue 100 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

a. Organization and Income Taxes (Continued)

On February 2, 2011, World War II Campaigns, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct and operate the Campaigns Pavilion adjacent to The National World War II Museum The organization is organized on a stock basis with the authority to issue 500 shares There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

On February 2, 2011, Warehouse District Development, Inc was established for the exclusive purposes of serving and/or providing investment capital for "Low-Income Communities" or "Low-Income Persons" The corporation is organized on a stock basis with authority to issue 100 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

b. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

c. Basis of Accounting

The consolidated financial statements of the Museum are prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other habilities.

d. Basis of Presentation

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

d. Basis of Presentation (Continued)

The Board has designated unrestricted net assets for the following purposes:

	2011	2010
Debt service Construction in progress	\$ 3,319,764 1,284,331	\$ 1,964,364 598,383
Totals	\$ 4,604,095	\$ 2,562,747

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time

Permanently Restricted Net Assets - Net assets subject to donor - imposed stipulations that they be maintained permanently by the Museum The donors of these assets permit the Museum to use all of the income earned on related investments for general or specific purposes

e. Consolidation

The accompanying consolidated financial statements show the consolidated assets, liabilities, and transactions of the Museum and its wholly owned subsidiaries, Chalk #17, Inc World War II Theatre, Inc, World War II Pavilions, Inc, Warehouse District Development Inc, and World War II Campaigns, Inc. (the "Subsidiaries"). The activities and resulting balances of the Subsidiaries relate to the new museum expansion. All intercompany transactions and resulting balances have been eliminated in the consolidated financial statements

f. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all short-term, highly liquid investments (including certificates of deposit) with an original maturity of three months or less when purchased to be cash equivalents. The Museum considers investments in money market funds to be cash equivalents. Included in cash and cash equivalents at year end are loan proceeds restricted for construction projects (see Note 4)

g. Investments

Investments in marketable securities and in mutual funds and other investments are generally carried at fair market value. Investments acquired through donations are recorded at fair market value on the date of donation.

h. Promises To Give

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional Conditional promises to give are recognized when the conditions on which they depend are substantially met. All promises to give are recognized as assets, less an allowance for uncollectible amounts, and revenues.

i. Contributions and Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions

j. Allowances For Uncollectible Promises To Give

The Museum provides for estimated uncollectible promises to give based on prior years' experience and management's analysis of specific promises made. As of June 30, 2011 and 2010, the balance of the allowance related to the Capital Campaign was \$360,326 and \$370,235 respectively, the allowance related to the Endowment was \$747 and \$4,886, respectively, and the allowance for other promises was \$10,496 and \$100,061, respectively

k. Gift Shop and Food and Beverage Inventory

Inventories are valued at the lower of cost (first-in, first-out) or market

I. Property and Equipment

Assets acquired are stated at cost, net of accumulated depreciation. Assets donated are carried at fair market value on date of donation, net of accumulated depreciation. Repairs and maintenance are charged to expense as incurred, major renewals and replacements and betterments are capitalized. Depreciation of buildings, exhibits, furnishings, and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis ranging from three years for equipment, ten years for exhibits and forty years for buildings.

m. Collections

As of June 30, 2011 and 2010, collections consist of three films commissioned by the Museum, a collection of German, French and American artifacts acquired from the St Lo Museum in France in 1995, aircraft, tanks, certain military vehicles, and miscellaneous artifacts. The Museum does not record depreciation on its collections because depreciation is not presently required to be recognized on individual works of art or historical treasures whose economic benefit or service potential is used so slowly that their estimated useful lives are extraordinarily long. It is the Museum's policy to capitalize only those items purchased, not those donated, unless the item's cost is significant and is able to be valued objectively. Donated collection items are not recorded, except in rare circumstances, due to the lack of an objective basis of valuation

n. Donated Services of Volunteers

A substantial number of volunteers have given extensive amounts of time and services to the Museum. However, no amounts are reflected in the consolidated financial statements for such services as management feels that the requirements for recording in-kind services have not been satisfied

o. Fundraising Expenses

All expenses associated with fundraising activities are expensed as incurred, including those expenses related to fundraising appeals in a subsequent year

p. Allocated Expenses

The costs of providing the various programs and other activities are summarized in Note 21 Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved

q. Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year.

r. Tax Matters

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statements. These standards require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. As of June 30, 2011, the Museum believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Tax years June 30, 2008 and later remain subject to examination by the taxing authorities

s. New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, ("ASU 2010-06"). ASU 2010-06 clarifies certain existing fair value disclosures and requires entities to disclose additional information regarding the amounts of and reasons for significant transfers between levels of the fair value hierarchy effective for reporting periods beginning after December 15, 2009. Effective for fiscal years beginning after December 15, 2010, it will also require entities to present information regarding changes in Level 3 assets and liabilities on a gross basis. Since ASU 2010-06 affects only fair value measurement disclosures,

s. New Accounting Pronouncements (Continued)

its adoption by the Museum has no effect on the Museum's financial position, changes in net assets, or cash flows.

In accordance with FASB ASC 958-205 and subsections (formerly FASB Staff Position No 117-1, Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds), the Museum has determined it is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which requires the Museum to classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets, unless stated otherwise in the gift instrument by the donor. FASB ASC 958-205 is effective for years ending after December 15, 2008.

Originally, the Museum followed guidance provided by the Uniform Management of Institutional Funds Act ("UMIFA") as Louisiana had not yet adopted UPMIFA. Effective July 1, 2010, Louisiana adopted a version of UPMIFA which is now followed by the Museum. The adoption of FASB ASC 958-205 and the subsequent change in guidance from UMIFA to UPMIFA had no material impact on the net asset classification of the Museum.

t. Subsequent Events

Management evaluates events occurring subsequent to the date of the consolidated financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements. Subsequent events have been evaluated through November 4, 2011, which is the date the consolidated financial statements were available to be issued.

Note 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by the donor for specific purposes or are available for subsequent periods. Cash, investments, and promises to give raised through the Capital Campaign are restricted for the acquisition of property and equipment and campaign expenses. Those restrictions are considered to expire when payments are made. Promises to give received from other donors are time-restricted for subsequent periods.

Note 3 - RESTRICTIONS ON ASSETS (Continued)

Temporarily restricted net assets are available for the following purposes or periods:

	2011	2010
Acquisition of property and equipment -		_
Capital Campaign	\$ 15,496,118	\$ 7,385,648
Other restricted purposes	655,827	250,461
For subsequent periods		
Unconditional promises to give	966,069	1,439,343
Unamortized discount on notes		
payable (see Note 15 and 16)	4,611,021	5,928,456
Totals	\$ 21,729,035	\$ 15,003,908
		

Permanently restricted net assets of \$4,745,923 and \$4,737,425 as of June 30, 2011 and 2010, respectively, consist of cash, investments, and unconditional promises to give which are restricted for endowment purposes, the earnings from which are available for operations and accordingly are recognized as unrestricted revenue.

Note 4 - LIMITED USE ASSETS

Pursuant to the 2007 issuance of the New Markets Tax Credits Financing Commitment (as described in Note 15) between the Museum and Capital One Bank, the Museum is required to maintain certain funds until disbursements are approved by the bank. These funds are restricted for the construction of the Solomon Victory Theater/Stage Door Canteen/American Sector Restaurant-Bar/and Support Facilities phase of the Museum expansion. There was no restricted cash balance as of June 30, 2011. The amount of restricted cash as of June 30, 2010 totaled \$1,494,506.

Pursuant to the 2008 issuance of the New Markets Tax Credits Financing Commitment (as described in Note 15) between the Museum and Whitney National Bank, the Museum is required to maintain certain funds until disbursements are approved by the bank. These funds are restricted for the construction of the Solomon Victory Theater / Stage Door Canteen / American Sector Restaurant-Bar/ and Support Facilities phase of the expansion. The amount of restricted cash as of June 30, 2010 totaled \$2,441,349 There was no restricted cash as of June 30, 2011.

Note 5 - INVESTMENTS

Marketable securities are summarized as follows:

		June 30, 2011	
	Cost	Market Value	Excess of Market Over Cost
Mutual funds as of June 30, 2011 Mutual funds as of June 30, 2010	\$ 7,878,912 \$ 3,481,718	\$ 9,022,995 \$ 3,709,091	\$ 1,144,083 227,373
Increase in unrealized appreciation Dividends, net of investment expenses Interest on cash, cash equivalents, and			916,710 13,401
notes receivable			1,570,368
Total investment income			\$ 2,500,479
		June 30, 2010	
			Excess of Market Over Cost
	Cost	Market Value	(Cost Over Market)
Mutual funds as of June 30, 2010	\$ 3,481,718	\$ 3,709,091	\$ 227,373
Mutual funds as of June 30, 2009	\$ 3,481,718	\$_3,088,141	\$ (393,577)
Increase in unrealized appreciation Dividends, net of investment expenses Interest on cash, cash equivalents, and			620,950 16,962
notes receivable			1,354,195
Total investment income			\$ 1,992,107

Note 6 - FAIR VALUE MEASUREMENTS

Fair value concepts are applied in recording investments. A fair value hierarchy which has three levels based on the reliability of the inputs is used to determine fair value. These levels include: Level 1, unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, directly or indirectly observable inputs other than quoted prices for the asset or liability, such as quoted market prices for similar assets or liabilities, and Level 3, unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Museum uses the market approach for valuing mutual funds which is within the Level 2 fair value hierarchy. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date

Assets measured at fair value on a recurring basis as of June 30, 2011 and 2010 are comprised of and determined as follows

		20	11	
		Base	d on	
Description	Total Assets Measured At Fair Value	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Certificates of Deposit	\$ 2,852,735	\$ 2,852,735	\$ -	\$ -
Mutual funds. Multi Strategy Equity Pooled Investments	4,679,634 1,490,626	-	4,679,634 1,490,626	- -
Totals	\$ 9,022,995	\$ 2,852,735	\$ 6,170,260	\$

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

		20	10	
		Base	ed on	
Description	Total Assets Measured At Fair Value	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds Multi Strategy Equity Pooled Investments	\$ 1,856,317 1,852,774	\$ -	\$ 1,856,317 1,852,774	\$ -
Totals	\$ 3,709,091	\$	\$ 3,709,091	\$

As of June 30, 2011 and 2010, there were no assets measured at fair value on a non-recurring basis

Note 7 - RISKS AND UNCERTAINTIES

In general, investment securities are exposed to various risks, such as interest rate, currency, credit, and market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investments will occur in the near term and would materially affect the market value of investments held by the Museum

Note 8 - CONCENTRATION OF CREDIT RISK

The Museum maintains cash balances at several local financial institutions where they are insured by the Federal Deposit Insurance Corporation up to \$250,000 per Bank As of June 30, 2011, cash deposits in excess of the insured limits were approximately \$11,280,000

Note 9 - UNCONDITIONAL PROMISES TO GIVE

Promises of donors to make contributions to the Museum are included in the consolidated financial statements as unconditional promises to give and revenue of the temporarily restricted net assets class after discounting projected future cash flows to the present value using the Annual Federal Mid-Term Rate published as of June 30, 2011.

Note 9 - UNCONDITIONAL PROMISES TO GIVE (Continued)

Unconditional promises to give consist of the following

	2011	2010
Unconditional promises to give		
Capital Campaign	\$ 17,082,173	\$ 8,526,174
Endowment	37,334	246,894
Other	1,049,550	1,576,284
Gross unconditional		
promises to give	18,169,057	10,349,352
L. Carrer of British		, ,
Less:		
Unamortized discount:		
Capital Campaign	(1,225,729)	(770,291)
Endowment	(907)	(2,601)
Other	(72,985)	(36,880)
Allowance for uncollectible amounts:	· ,	
Capital Campaign	(360,326)	(370,235)
Endowment	(747)	(4,886)
Other	(10,496)	(100,061)
Net unconditional		
promises to give	\$ 16,497,867	\$ 9,064,398
promises to give	Ψ 10,127,007	Ψ 2,004,370
Net unconditional promises to give		
Capıtal Campaign	\$ 15,496,118	\$ 7,385,648
Endowment	35,680	239,407
Other	966,069	1,439,343
Totale	¢ 16 407 967	¢ 0.064.209
Totals	<u>\$ 16,497,867</u>	\$ 9,064,398

Note 9 - UNCONDITIONAL PROMISES TO GIVE (Continued)

	2011	2010
Amounts due in Less than one year One to five years	\$ 5,933,597 12,235,460	\$ 5,510,232 4,839,120
Totals	\$ 18,169,057	\$ 10,349,352

Promises to give receivable in more than one year are discounted at 2 22%

Note 10 - NOTES RECEIVABLE

The Museum entered into an agreement on October 31, 2008 to lend Whitney New Markets Investor 5, L L C a maximum aggregate amount of \$1,500,000 The note is secured by certain bank accounts of Whitney New Markets Investor 5, L.L.C. Outstanding principal and accrued interest as of June 30, 2011 and 2010 totaled \$1,505,475 and \$1,503,750, respectively Interest accrues at a fixed rate of 1% per year and is payable quarterly. Interest earned on this note for the year ended June 30, 2011 and 2010 was \$15,167 and \$13,787, respectively. The note matures on October 31, 2015, at which time all outstanding principal and interest will be paid.

The Museum entered into an agreement on October 31, 2008 to lend Whitney New Markets Investor 5, L L C a maximum aggregate amount of \$1,610,008. The note is secured by certain bank accounts at Whitney New Markets Investor 5, L L.C Outstanding principle and interest as of June 30, 2011 and 2010 totaled \$481,680 and \$261,952 respectively. Interest accrues at an adjustable rate equal to the one month LIBOR + 1.25% (1 44% as of June 30, 2011) and is payable quarterly. Interest on this note for the year ended July 01, 2010 and 2009 was \$4,667 and \$2,500, respectively The note matures on October 31, 2015, at which time all outstanding principal and interest will be paid

The Museum entered into an agreement on December 4, 2007 to lend COCRF Investor I, L.L. C. a maximum aggregate amount of \$27,000,000. The note is secured by certain bank accounts of COCRF Investor I, L.L.C. Outstanding principal and accrued interest as of June 30, 2011 and 2010 totaled \$30,319,764 and \$28,964,364, respectively. Interest accrues at a fixed rate of 5.02% per year and is payable at maturity. Interest earned on this note for the year ended June 30, 2011 and 2010 was \$1,355,400 and \$1,297,092, respectively, which is included in the note receivable balances. The note matures on December 4, 2014, at which time all outstanding principal and interest will be paid.

Note 11 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2011	2010
Land	\$ 7,568,831	\$ 7,170,911
- Buildings	84,142,955	77,741,068
Exhibits	3,180,870	3,165,937
Equipment, video productions,		
and furniture	18,336,043	17,651,613
Construction in progress	8,867,964	9,082,192
	122,096,663	114,811,721
Less accumulated depreciation	(20,537,515)	(15,102,955)
Totals	\$ 101,559,148	\$ 99,708,766

Depreciation expense for the year ended June 30, 2011 and 2010 totaled \$5,506,394 and \$3,963,588, respectively.

Note 12 - SPLIT-INTEREST AGREEMENT

The Museum established two charitable gift annuities in which assets were transferred to the Museum. The annuities require the Museum to annually pay \$1,830 and \$7,757, respectively, to the donor or his spouse until death. The assets donated were valued at \$20,000 and \$121,200 on the dates of donation. The present value of estimated future payments of \$67,882 and \$74,768 as of June 30, 2011 and 2010, respectively, is included in the habilities section in the Museum's Consolidated Statement of Financial Position.

Note 13 - GRANTS

The State of Louisiana provided a capital appropriation through a Cooperative Endeavor Agreement with The National World War II Museum, Inc. and The World War II Theatre, Inc. in the amount of \$33,000,000. The Museum must use the State award for the planning and construction of buildings needed for the expansion program During the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$16,473 and \$5,049,866, respectively

Note 13 - GRANTS (Continued)

The U S Department of Commerce, Economic Development Administration awarded a grant totaling \$2,000,000 to the Museum toward the renovation of the Restoration Pavilion, a historic restoration workshop and workforce training center, on March 9, 2010 For the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$1,859,992 and \$140,008, respectively

The U S Department of Defense awarded a grant totaling \$19,670,450 to the Museum toward the construction of the United States Freedom Pavilion - Land, Sea & Air on July 1, 2010 The grant allows for pre-award fund spending starting April 1, 2010 Consequently, for the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$4,253,579 and \$366,121, respectively.

The Institute of Museum and Library Services awarded a grant totaling \$150,000 to the Museum to develop entertainment programming for the Stage Door Canteen over a 3 year period on July 10, 2009. For the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$50,000 and \$45,000, respectively.

The Institute of Museum and Library Services awarded a grant totaling \$334,000 to the Museum for a project titled "Bringing Oral Histories to Life - Unlocking the Power of the Spoken Word", a collection digitization project on October 1, 2009 For the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$150,948 and \$35,000, respectively

For years ended June 30, 2011 and 2010 the Museum also recognized \$1,056,092 and \$2,143,722 of grant revenues from private sources

Note 14 - BANK LINE OF CREDIT

On March 18, 2005, the Museum entered into a loan agreement with the Whitney Bank in New Orleans. The loan agreement provides for a \$2,350,000 line of credit loan which is evidenced by a promissory note and has been extended to May 3, 2012. The line of credit loan was established to purchase property for expansion and refinance a mortgage loan. The line of credit loan is secured by a first mortgage on the property acquired, the assignment of rents and leases, and all property and deposits held by the financial institution. As of June 30, 2011, the Museum had an outstanding balance of \$319,091. The Museum had no borrowings outstanding as of June 30, 2010. Interest on the loan is payable monthly at an adjusted rate equal to the one month LIBOR + 1.5% (1.69% and 1.76% as of June 30, 2011 and 2010, respectively)

Note 14 - BANK LINE OF CREDIT (Continued)

During the years ended June 30, 2011 and 2010, interest expense totaled \$555 and 20,334, respectively

Note 15 - NEW MARKET TAX CREDITS

In December 2007, World War II Theatre, Inc. executed a New Markets Tax Credits Financing Transaction with Capital One Bank (see Note 16) to fund construction costs for the Solomon Victory Theater/ Stage Door Canteen/ American Sector Restaurant-Bar/ and Support Facilities (the "Project"). The Museum is a guarantor of the Subsidiary's obligation. The structure will realize benefits from the New Market Tax Credit Program of the Community Development Financial Institution Fund (CDFI), a branch of the US Department of Treasury, and from the State of Louisiana New Markets Tax Credits Program.

The transaction includes multiple loans totaling \$40 million toward this \$58 million phase of the expansion. The Museum has sources of funding in place to satisfy a significant portion of the loans, including over \$25,000,000 in State capital outlay, and over \$6,700,000 in existing donor pledges and contributions as of the date of the transaction closing

The total loan amount is split between three loans which are referred to as Facility A, Facility B, and Facility C, as described in Note 16

The Museum will realize a projected benefit in positive cash flow from the federal and state incentives totaling \$9,560,000 (unaudited), which will be used to fund the expansion

In October 2008, World War II Theatre, Inc executed a New Markets Tax Credits Financing Transaction with Whitney New Markets Fund (see Note 16) to fund construction costs for the Solomon Victory Theater / Stage Door Canteen / American Sector Restaurant-Bar/ and Support Facilities (the "Project") The Museum is a guarantor of the Subsidiary's obligation The structure will realize benefits from the New Market Tax Credit Program of the Community Development Financial Institution Fund (CDFI), a branch of the U.S Department of Treasury New Markets Tax Credits Program

The transaction includes multiple loans totaling \$14 million toward this \$58 million phase of the expansion. The total loan amount is split between three loans which are referred to as Facility A, Facility B, and Facility C, as described in Note 16

Note 15 - NEW MARKET TAX CREDITS (Continued)

The Museum may realize a projected benefit in positive cash flow from the federal incentives incorporated into the exercise of the Facility B totaling \$2,800,000 (unaudited), which will be used to fund the expansion.

Note 16 - NOTES PAYABLE

Notes payable consist of the following

Notes payable consist of the following			
	 2011	_	2010
Note payable to Whitney Bank, bearing interest at a one month LIBOR + 15% (169% at June 30, 2011) Interest is due monthly with a balloon payment of \$2,232,500 due May 3, 2012, secured by a first mortgage on the buildings.	\$ 2,232,500	\$	2,645,000
Notes payable, dated December 4, 2007, to four			

Notes payable, dated December 4, 2007, to four community development financial institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility A), bearing interest at 5 20% per year with interest due quarterly through December 4, 2014 (maturity), principal payments are to be made quarterly beginning January 5, 2010 at .62% of the amount funded on the note through October 2013 and 2 5% of the amount funded on the note quarterly to maturity date, secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum (See Note 15).

5,775,000 5,925,000

Note 16 - NOTES PAYABLE (Continued)

	2011	2010
Notes payable, dated December 4, 2007, to four community development financial institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility B), bearing no interest (discount is based on imputed interest rates between 4 39% and 4 64% per year), principal outstanding is due on the maturity date of the note (December 4, 2014) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum.	27,000,000	27,000,000
Notes payable, dated December 4, 2007, to four community development financial institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility C), bearing no interest (discount is based on imputed interest rates between 4.39% and 4.64%), principal outstanding is due on the maturity date of the notes (December 4, 2014) secured by all accounts receivable, deposits held by financial institutions, and the assignment of	7 000 000	7,000,000
secured by all accounts receivable, deposits held	7,000,000	

Note 16 - NOTES PAYABLE (Continued)

	2011	2010
Notes payable, dated October 31, 2008, to a community development financial institution, Whitney New Markets CDE 7, LLC, (Facility A), interest at 69.29% of the one month LIBOR + 98% (1 17% at June 30, 2011) due quarterly, principal outstanding is due on the maturity date of the notes (October 31, 2015) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum (See Note 15).	9,700,000	9,700,000
Notes payable, dated October 31, 2008, to a community development financial institution, Whitney New Markets CDE 7, LLC, (Facility B), interest at 69 29% of the one month LIBOR + .98% (1 17% at June 30, 2011) due quarterly, principal outstanding is due on the maturity date of the notes (October 31, 2038) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum This loan may be prepaid without penalty after October 31, 2015. In addition, beginning October 31, 2015, the lender has the right to require the Museum to purchase the loan for a put price of \$1,000. (See		
Note 15).	2,800,000	2,800,000

Note 16 - NOTES PAYABLE (Continued)

	2011	2010
Notes payable to a Community Development Financial Institution, Whitney New Markets CDE 7, LLC, (Facility C), interest at 69.29% of the one month LIBOR + .98% (1 17% at June 30, 2011) due quarterly, principal outstanding is due on the maturity date of the notes (October 31, 2015) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum	1,500,000	1,500,000
Non-interest bearing note payable to The Vought Aircraft Heritage Foundation, due in three annual installments of \$175,000 through the maturity date, December 31, 2013, secured by the Corsair aircraft	525,000	_
		56 570 000
Less unamortized discount	56,532,500 (4,611,020)	56,570,000 (5,928,456)
Totals	\$ 51,921,480	\$ 50,641,544

Interest expense on the note payable to Whitney Bank totaled \$38,677 and \$56,116 for the years ended June 30, 2011 and 2010, respectively. Interest recognized on the notes payable to the five Community Development Financial Institutions, totaled \$1,656,372 and \$1,206,228 for the years ended June 30, 2011 and 2010, respectively (for the year ended June 30, 2010, \$396,524 of the total was capitalized as construction in progress)

Note 16 - NOTES PAYABLE (Continued)

Year Ended	
June 30,	
2012	\$ 2,557,500
2013	325,000
2014	775,000
2015	38,875,000
2016	11,200,000
2017 and thereafter	2,800,000
Total	\$ 56,532,500

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT

The Endowments. The Museum's endowments consist of four funds established for the purpose of a general endowment, the George Schultz Lecture Series, the Selley Foundation Special Exhibits and Collections Fund, and the Raymond E. Mason Jr. Endowed Fund for Distinguished Lectures The general endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment As required by generally accepted accounting principles, net assets associated with endowment funds, including board designated funds, are classified and reported based on the existence or absence of donor imposed restrictions

Interpretation of Relevant Law. The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of an original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies the following amounts as permanently restricted net assets in the accompanying consolidated financial statements.

- the original value of gifts donated to the permanent endowment;
- the original value of subsequent gifts to the permanent endowment; and
- accumulations to the permanent endowment, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds

- The duration and the preservation of the fund
- The purposes of the Museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

Endowment net asset composition by type of fund as of June 30, 2011 and 2010 is as follows.

	June 30, 2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Donor-restricted endowment funds Board-designated funds	\$ 1,284,331	\$ 658,886	\$ 4,745,923	\$ 5,404,809 1,284,331	
Total funds	\$ 1,284,331	\$ 658,886	\$ 4,745,923	\$ 6,689,140	
	June 30, 2010				
		June 3	0, 2010		
	Unrestricted	June 3 Temporarily Restricted	0, 2010 Permanently Restricted	Total	
Donor-restricted endowment funds Board-designated funds	Unrestricted \$ 598,383	Temporarily	Permanently	Total \$ 4,975,061 598,383	

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)

Changes in endowment net assets for the year ending June 30, 2011 and 2010 are as follows:

		_		2	011			
		Inrestricted		emporarily Restricted		ermanently Restricted		Total
Endowment net assets,								
beginning of year Contributions Investment return	\$	598,383 85,307	\$	237,636	\$	4,737,425 8,498	\$	5,573,444 93,805
Investment income Net appreciation,		7,505		5,897		~		13,402
realized and unrealized Endowment net assets, reclassified from		568,181		440,308		-		1,008,489
restriction		24,955	_	(24,955)	_			
Endowment net assets, end of year	<u>\$</u>	1,284,331	<u>\$</u>	658,886	\$	4,745,923	\$	6,689,140
				2	010			
		Inrestricted		emporarily Restricted		ermanently Restricted	_	Total
Endowment net assets,								
beginning of year Contributions Investment return	\$	69,726 138,022	\$	**	\$	4,471,607 265,818	\$	4,541,333 403,840
Investment income Net depreciation,		9,522		7,440		-		16,962
realized and unrealized Endowment net assets, reclassified from		337,581		273,728		-		611,309
restriction		43,532		(43,532)	_	-		
Endowment net assets, end of year	<u>\$</u>	598,383	<u>\$</u>	237,636	\$	4,737,425	\$	5,573,444

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)

Funds with Deficiencies From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011 and 2010

Return Objectives and Risk Parameters. The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that must be held in perpetuity as well as board designated funds. Under this policy, the Permanent Endowment Fund should be invested primarily to achieve growth of capital and generation of income. Recommendations regarding the investment of the balance in the Permanent Endowment Fund shall be made by the Investment Committee to the Treasurer, President, and Chief Financial Officer. The Committee shall consider an appropriate and balanced portfolio of equity and fixed income investments, and other investments as may be deemed consistent with the investment objectives of the Fund by the Board of Trustees

Spending Policy and How Investment Objectives Relate to the Spending Policy. A projected income from the Permanent Endowment Fund shall be budgeted to the general support of ongoing Museum operations or such other purpose as the Board of Trustees shall deem appropriate. This percentage and the asset base to which it applies shall be determined by the Investment Committee, incorporated in the annual budget to be approved by the Finance Committee, and ratified by vote of the Board of Trustees. This spending policy shall conform to generally accepted endowment management policies Spending of the approved funds shall be authorized by the President

Note 18 - CAPITAL CAMPAIGN

In 2004, the Museum began the Capital Campaign to raise funds for the expansion of the Museum facilities and campaign expenses. The goal of the Capital Campaign is to raise \$300,000,000, of which \$60,000,000 is targeted from Federal sources, \$60,000,000 from State funding, and \$180,000,000 from private sector donations. An additional \$60,000,000 from commercial funding sources will be pursued for the hotel and conference center, should that segment of the expansion prove to be feasible.

Note 18 - CAPITAL CAMPAIGN (Continued)

As of June 30, 2011, \$32,750,000 has been committed by Federal sources, \$43,000,000 has been appropriated by the State of Louisiana, \$60,798,000 has been raised from private sector sources for property acquisitions and campaign expenses and \$4,947,000 has been raised from private sector sources for the Endowment Fund, net of promises written off (including cash received through that date and promises to give in subsequent periods). An additional \$2,819,176 (unaudited) is reported by the Museum as planned gifts which will be recognized in subsequent periods in accordance with accounting principles generally accepted in the United States of America (for items such as the Museum being named as a beneficiary in a will or life insurance policy)

Promises receivable from private sector sources (excluding Endowment) are as follows.

	2011	2010
Promises receivable at beginning of year	\$ 8,526,174	\$ 9,101,294
New promises made during the year	16,154,593	9,200,329
Less.		
Cash received	(6,994,171)	(9,493,949)
Write offs	(604,423)	(281,500)
Promises receivable at end of year	17,082,173	8,526,174
Unamortized discount	(1,225,729)	(770,291)
Allowance for doubtful promises	(360,326)	(370,235)
Totals	\$ 15,496,118	\$ 7,385,648

Note 18 - CAPITAL CAMPAIGN (Continued)

The activities of the Capital Campaign funding from private sector sources for property acquisitions and campaign expenses through June 30, 2011 are as follows

Total Capital Campaign gifts and promises (excluding Endowment)	\$ 60,272,531
Less amounts written off since inception	(985,923)
	59,286,608
Discount to net present value at June 30, 2011	(1,225,729)
Allowance for doubtful promises at June 30, 2011	(360,326)
*	
Gifts and promises, net	57,700,553
Net assets released from restrictions through acquisition of property or payment of Capital Campaign expenses	
2004	3,605,658
2005	2,467,099
2006	2,973,040
2007	5,396,033
2008	7,967,652
2009	3,306,833
2010	9,493,949
2011	6,994,171
Total net assets released	42,204,435
Temporarily restricted net assets _	
Capital Campaign	\$ 15,496,118

Note 19 - RETIREMENT PLANS

The Museum adopted a defined contribution plan covering all of its employees who are age eighteen and over, who have completed three months of service. The Plan allows participants to contribute by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Plan allows the Museum to contribute a discretionary amount on a uniform basis to all participants. The Museum's contribution to the plan totaled \$105,768 and \$77,109 for the years ended June 30, 2011 and 2010, respectively

Note 19 - RETIREMENT PLANS (Continued)

The Museum sponsors a Section 403(b) salary reduction plan covering substantially all of its employees.

The Museum sponsors deferred compensation plans pursuant to Sections 457(b) and (f) of the Internal Revenue Code for the benefit of an employee The Museum's contributions to the plans totaled \$45,000 for each of the years ended June 30, 2011 and 2010 These funds are transferred to separate trusts outside the control of the Museum with the employees as the beneficiaries

Note 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and Cash Equivalents - The carrying amount approximates fair value because of the short maturity of these instruments

Investments - The carrying amounts of investment securities available for sale and restricted investments are predominately based on directly or indirectly observable inputs other than quoted market prices for the asset, such as quoted market prices for similar assets or liabilities

Unconditional Promises to Give - The carrying value of unconditional promises to give as of June 30, 2011 and 2010 is \$16,497,867 and \$9,064,398, respectively are discounted to their net present value, which approximates fair value.

Grants Receivable - The carrying value of grants receivable as of June 30, 2011 and 2010 is \$2,000,000 and \$1,446,423, respectively, which approximates fair value.

Notes Receivable - The carrying value of notes receivable as of June 30, 2011 and 2010 is \$32,336,919 and \$30,730,066, respectively, which approximates fair value

Notes Payable To Banks - The carrying value of note payable to bank as of June 30, 2011 and 2010 is \$51,921,480 and \$50,641,544, respectively, which approximates fair value

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the consolidated financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision Changes in assumptions could significantly affect the estimates.

Note 21 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses have been reported on the Statement of Activities and Changes in Net Assets by natural classification. To present expenses by functional classifications, expenses are charged to program services and supporting services (general and administrative expense, Capital Campaign expense and fundraising expenses) based on management's estimate of periodic time and expense evaluations. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Museum

Total expenses are allocated as follows:

	2011	2010
Program services	\$ 24,306,589	\$ 18,028,570
Supporting services		•
General and administrative	3,052,858	3,229,956
Fundraising	1,364,550	1,482,103
Fundraising _ Capital Campaign	1,212,857	2,085,610
Total expenses	\$ 29,936,854	\$ 24,826,239

Note 22 - COMMITMENTS

The Museum entered into employment contracts with two employees expiring on various dates through July 31, 2015, which provides for a minimum annual salary for each, and incentives based on the Museum's attainment of specified levels of financial performance for one employee. The contracts provide for retention bonuses provided the employees meet certain levels of performance and extend their employment contracts by the end of the initial terms. As of June 30, 2011, the total commitment (undiscounted) is \$1,395,396 for salaries and \$45,000 for contributions to the deferred compensation plans, which includes a four year commitment to the Senior Vice President of Capital Projects and a one year commitment to the Chief Executive Officer.

Note 22 - COMMITMENTS (Continued)

On March 1, 2005, the Museum entered into a contract for the architectural design of the Capital Expansion Project. Under the terms of the contract, fees are determined by a lump sum total of \$250,000, 9 9% of the first \$80,170,115, and 6% of costs in excess of \$80,170,115. As of June 30, 2011, the Museum has incurred construction in progress related to this architectural design contract totaling approximately \$7,200,000

The Museum has entered into a contract for the exhibit design of the Capital Expansion Project totaling approximately \$7,790,000. As of June 30, 2011, the Museum has incurred construction in progress related to this architectural design contract totaling approximately \$3,475,000.

During the year ended June 30, 2011, the Museum entered into several contracts related to the restoration of two aircraft and the construction associated with the Capital Expansion Project totaling approximately \$2,350,000 As of June 30, 2011, the Museum has incurred construction in progress related to these projects totaling approximately \$646,500.

The Museum has entered into a contract for Soda Shop renovations totaling approximately \$360,811. As of June 30, 2011, the Museum has incurred construction in progress related to this project totaling approximately \$329,556

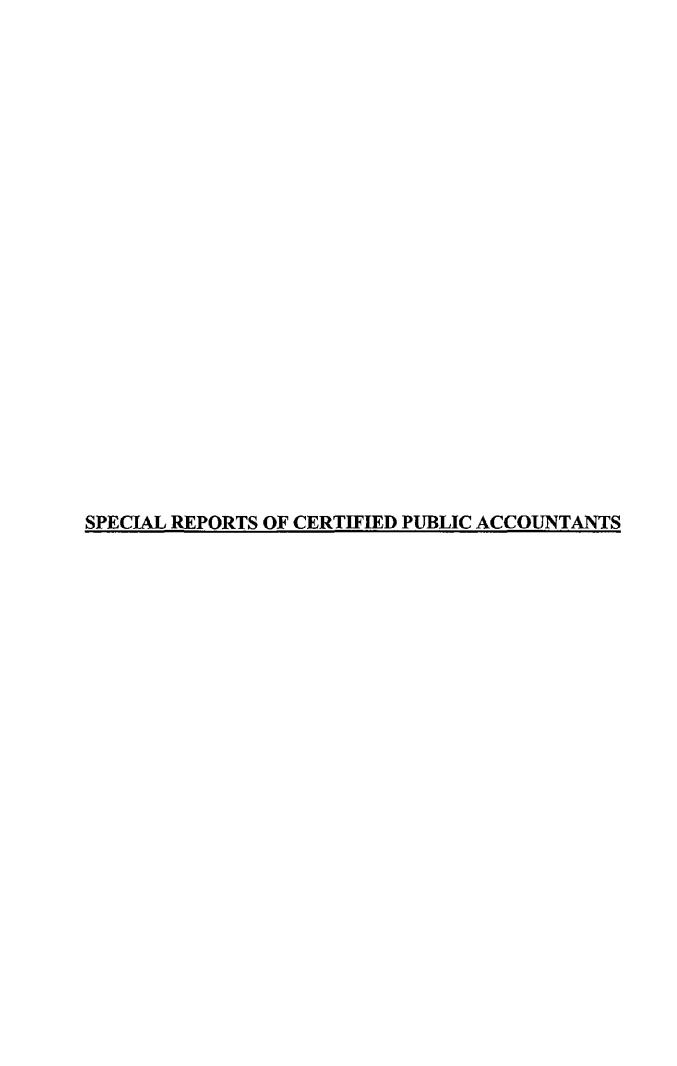
The Museum has entered into a contract for various construction related to the Land, Sea & Air Pavilion totaling approximately \$20,472,000 As of June 30, 2011, the Museum has incurred construction in progress related to this project totaling approximately \$1,486,871.

If there is a breach of the loan agreements between the Museum and Capital One and the Museum and Whitney National Bank and the Community Development Financial Institutions are required to recapture all or part of the New Market Tax Credits that they claimed, the Museum has agreed to pay to the Community Development Financial Institutions an amount equal to the sum of the credits recaptured. The maximum aggregate amount due under the clauses in the agreement governing these possible recaptures is \$27,560,000 (see Notes 15 and 16) Management believes there are no breaches of these agreements.

Note 23 - SUPPLEMENTAL CASH FLOW INFORMATION

	2011	2010
Cash paid for interest	\$ 377,736	\$ 361,766
Cost of building improvements and equipment acquired Less:	\$ 7,501,891	\$ 19,587,920
Amortization of note payable discount Donated equipment (non-cash)		(329,359) (92,735)
Cash payments for property and equipment acquired	\$ 7,501,891	\$ 19,165,826
	2011	2010
Cost of collections acquired Less:	\$ 930,432	\$ 582,603
Collections acquired through note payable Donated collections (non-cash)	(525,000) (41,048)	(3,715)
Cash payments for collections acquired	\$ 364,384	\$ 578,888

Non-cash financing and investing activities include the increase in the cost of building improvements of \$329,359 for the year ended June 30, 2010 for capitalized interest through the amortization of the discount on the below market rate notes payable.





REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors,

The National World War II Museum, Inc.,

New Orleans, Louisiana.

We have audited the consolidated financial statements of The National World War II Museum, Inc. and Subsidiaries (the "Museum"), as of and for the year ended June 30, 2011, and have issued our report thereon, dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

Management of the Museum is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Museum's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under <u>Government Auditing Standards</u>.

This report is intended for the information of the Board of Directors, management, the State of Louisiana, the Legislative Auditor for the State of Louisiana, Federal Awarding Agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties Under Louisiana Revised Statue 24 513, this report is distributed by the Legislative Auditor as a public document.

Bourgeoir Bennett, LL.C.
Certified Public Accountants.

New Orleans, Louisiana, November 4, 2011.



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors,

The National World War II Museum, Inc,

New Orleans, Louisiana

Compliance

We have audited The National World War II Museum, Inc. and Subsidiaries (the "Museum"), compliance with the types of compliance requirements described in the <u>U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement</u> that could have a direct and material effect on each of the Museum's major federal programs for the year ended June 30, 2011. The Museum's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Museum's management. Our responsibility is to express an opinion on the Museum's compliance based on our audit

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Museum's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Museum's compliance with those requirements.

In our opinion, the Museum complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of the Museum's major federal programs for the year ended June 30, 2011

Internal Control Over Compliance

Management of the Museum is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Museum's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the Legislative Auditor for the State of Louisiana, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statue 24.513, this report is distributed by the Legislative Auditor as a public document.

Certified Public Accountants

Bourgeois Bennett, LL.C.

New Orleans, Louisiana, November 4, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The National World War II Museum, Inc. and Subsidiaries

New Orleans, Louisiana

For the year ended June 30, 2011

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
United States Department of Commerce:		
Economic Development Administration:		
Title IX - Economic Adjustment Assistance	11 307	\$ 1,859,992
United States Department of Defense:		
Congressionally Directed Assistance	12.599	4,253,579
National Endowment for the Humanities:		
Institute of Museum and Library Services:		
Museums for America - Engaging		
Communities	45 301	50,000
National Leadership Grant - Museum		•
Advancing Digital Resources	45.312	150,948
Total Institute of Museum and Library Services		200,948
Total Expenditures of Federal Awards		\$ 6,314,519

See notes to schedule of expenditures of federal awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The National World War II Museum, Inc. and Subsidiaries

New Orleans, Louisiana

For the year ended June 30, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of The National World War II Museum, Inc. and Subsidiaries (the "Museum") and is presented on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the Museum has met the cost reimbursement of funding qualifications for the respective grant. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, the amount presented in the schedule may differ from the amount presented in, or used in the preparation of, the consolidated financial statements

b. Accrued Reimbursement

Various reimbursement procedures are used for federal awards received by the Museum Consequently, timing differences between expenditures and program reimbursements exist at the end of the year

c. Payments to Subrecipients

There were no payments to subrecipients for the year ended June 30, 2011

Note 2 - FINDINGS OF NONCOMPLIANCE

No federal award findings or questioned costs were reported during the audit of the consolidated financial statements for the year ended June 30, 2011.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

The National World War II Museum, Inc. and Subsidiaries New Orleans, Louisiana

For the year ended June 30, 2011

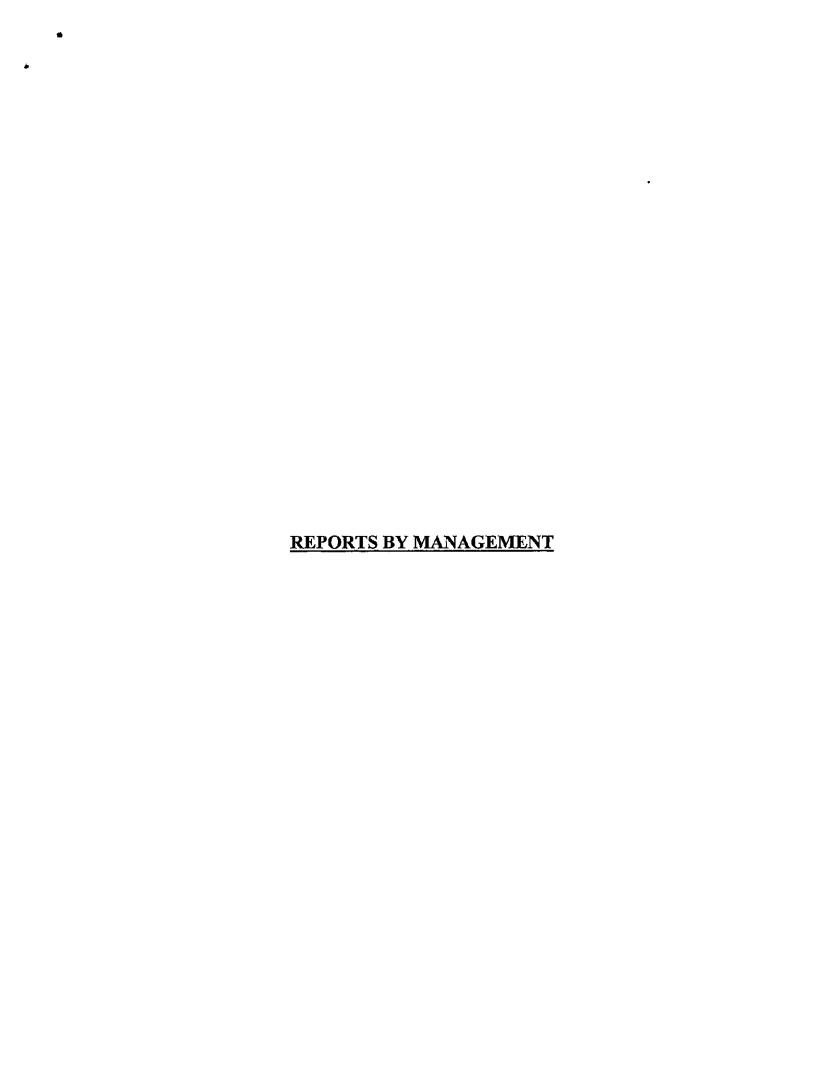
Section I - Summary of Auditor's Report

, 4 - 1 - 0	- La Community of Franction & Report		
a)	Financial Statements		
	Type of auditor's report issued. unqualified		
	Internal control over financial reporting		
	 Material weakness(es) identified? Significant deficiency(ies) identified? 	yes yes	X no X none reported
	Noncompliance material to consolidated financial statements noted?	yes	X no
b)	Federal Awards		
	Internal control over major program:		
	 Material weakness(es) identified? Significant deficiency(ies) identified? 	yes yes	$\frac{X}{X}$ no $\frac{X}{X}$ none reported
	Type of auditor's report issued on compliance for major progra	ıms [,] unqual	ified
	 Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 	yes	<u>X</u> no

Section I - Summary of Auditor's Report (Continued)

c) Identification of Major Programs:

CFDA Number	Name of Federal Program
12.599 11 307	U.S. Department of Defense Title IX - Economic Adjustment Assistance
Dollar threshold used to distinguish between Type A and Type B programs	s: <u>\$300,000</u>
Auditee qualified as a low-risk auditee?	yes <u>X</u> no



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

The National World War II Museum, Inc. and Subsidiaries New Orleans, Louisiana

For the year ended June 30, 2010

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No material weaknesses were reported during the audit of the consolidated financial statements for the year ended June 30, 2010.

No significant deficiencies were reported during the audit of the consolidated financial statements for the year ended June 30, 2010

Compliance and Other Matters

No compliance findings material to the consolidated financial statements were reported during the audit of the consolidated financial statements for the year ended June 30, 2010.

Section II - Internal Control And Compliance Material to Federal Awards

No findings or questioned costs were reported during the audit of the consolidated financial statements for the year ended June 30, 2010.

Section III - Management Letter

A management letter was not issued in connection with the audit of the consolidated financial statements for the year ended June 30, 2010.

MANAGEMENT'S CORRECTIVE ACTION PLAN ON CURRENT YEAR FINDINGS

The National World War II Museum, Inc. and Subsidiaries

New Orleans, Louisiana

For the year ended June 30, 2011

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No material weaknesses were reported during the audit of the consolidated financial statements for the year ended June 30, 2011.

No significant deficiencies were reported during the audit of the consolidated financial statements for the year ended June 30, 2011

Compliance and Other Matters

No compliance findings material to the consolidated financial statements were reported during the audit of the consolidated financial statements for the year ended June 30, 2011

Section II - Internal Control And Compliance Material to Federal Awards

No findings or questioned costs were reported during the audit of the consolidated financial statements for the year ended June 30, 2011

Section III - Management Letter

A management letter was not issued in connection with the audit of the consolidated financial statements for the year ended June 30, 2011.